Student aid overhaul seen as Pell's salvation

GOVERNMENT TO BECOME DIRECT LENDER

By Daniel de Vise
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WASHINGTON — Legislation hailed by supporters as the most significant changes to college student lending in a generation was included in the health-care reform legislation taken up by the House of Representatives on Sunday night.

The student aid initiative, overshadowed by the health-care debate, will overhaul the student loan industry, eliminating a $60 billion program that supports private student loans with federal subsidies and replacing it with direct government lending to students.

By ending the subsidies and effectively eliminating the middleman, the change will generate $61 billion in savings over 10 years, according to the non-partisan Congressional Budget Office.

Most of those savings, $36 billion, will go to Pell grants, funding an era of steady and predictable increases in the massive but underfunded federal aid program for needy students. Smaller portions will go toward reducing the deficit and to various Democratic priorities, including community colleges, historically black colleges and universities, and caps on loan payments.

The law's greatest effect will fall on the more than 6 million students who rely on Pell grants to finance their educations. Pell, launched in 1973, once covered more than two-thirds of tuition and fees at a public university. It now covers about one-third.

The student aid measure was initially framed as a boost to the Pell program. Now it is seen as its salvation. Democratic leaders say that without a massive infusion of cash, the maximum grant would have been scaled back by more than half, to $2,150, and at least 500,000 students could have be dropped from the program.

"So if this legislation did not pass, you would see catastrophic cuts to the Pell grant program, effectively slamming the door shut for hundreds of thousands of students, if not millions, who rely on the Pell grant program to go to school," said Rich Williams, higher education associate for U.S. PIRG, the federation of state Public Interest Research Groups.

Democratic leaders and student advocates hailed the aid package as simple, smart reform: Under the current Federal Family Education Loan program, the government effectively assumes the risk for loans issued by private lenders, who then pocket the subsidies.

"You're taking billions of dollars in wasteful subsidies to student lenders and banks and you're recycling that money on behalf of families and students to help pay for their college education," said Rep. George Miller, D-Calif., chairman of the House Education and Labor Committee.

House Republicans and lending industry lobbyists opposed the measure, calling it an unnecessary government takeover and envisioning a bumbling bureaucracy replacing efficient private-sector loan operations.